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MEMORANDUM FOR: Mr. Ivan Matusek
INR/RES/EE
Rm. 7813
State Department

SUBJECT: Polish Economic Outlook

Enclosed is an overview of the Polish economic situation you requested.

If we can supply additional information please feel free to call.

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Office of Economic Research

8 July 1974
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Poland: The Economy and Trade with the West

The Polish economy in 1973 grew at an accelerated pace as all major plan targets were exceeded. Both national income and real wages rose 10% in 1973, and the plan for 1974 prescribes more of the same. Industrial production and labor productivity showed above-plan gains in 1973 of 12% and 9% respectively, and have continued to climb in the first quarter of 1974. With the investment rate soaring 13% over the planned figure for the first quarter of 1974, the Poles apparently have a tiger by the tail. The rapid investment pace is producing inflationary pressures. Indeed, the most serious domestic problem currently facing the Poles is maintaining present levels of development while at the same time dampening inflationary pressures.

Poland's trade binge with the industrial West -- nothing short of spectacular in the past triennium -- shows no signs of letup in 1974. Triggered by Gierek's about face on his predecessor's conservative trade policy (following the riots of 1970), foreign trade increased 64% in 1971-73, attaining a level of over \$14 billion in 1973. The changes in the sources and

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direction of Polish trade have been equally impressive. For example, imports from the industrialized West increased from 26% of the total in 1970 to 41% in 1973.

The U.S. has participated actively in Poland's burgeoning trade with the industrialized West. The creation of the U.S.-Polish Joint Trade Commission and the extension of Export-Import Bank credits were the main catalysts behind the \$505 million U.S. trade turnover with Poland in 1973 -- up 177% since 1970. U.S. exports to Poland almost tripled from \$122 million in 1972 to \$350 million in 1973. U.S. imports from Poland increased much more slowly -- from \$142 million to \$190 million. Consequently, last year marked the first time since 1964 that the U.S. has had a trade surplus with Poland.

U.S.-Polish trade has continued to expand in 1974. U.S. exports to Poland for the first four months of 1974 increased by 82% compared with the same period in 1973, while U.S. imports from Poland were up 37%. Polish officials have predicted that imports from the U.S. could reach the \$500 million mark in 1974.

Warsaw's desire for Western technology -- spurred by Export-Import Bank credits -- resulted in machinery contracts with U.S. firms worth about \$250 million in 1973. Many of these purchases -- for meat processing, metallurgical and electronic equipment -- will be used to modernize Polish industry and at the same time to

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develop the export potential of Polish products to the West. All indications point to continued Polish interest in cooperative deals with the West. For example, negotiations are currently underway with various U.S. firms including companies representing mining, electronics, and motor vehicle interests.

Trade with the industrialized West as a whole reflects a similar trend. In the first four months of 1974 Polish imports from the Industrialized West rose 81% over the same period in 1973. Polish exports to these countries increased 49%. Consequently, Poland accrued a \$544 million trade deficit with the industrialized West during the 4-month period.

Poland's 1974 plan calls for worldwide exports to increase by about 19% and imports by about 17%. Nevertheless, the planned total trade deficit is considerably higher than in 1973. Because the deficit is concentrated in trade with the West, the 1974 hard currency deficit is likely to be higher than the \$1.2 billion incurred in 1973.

To date, Poland's creditworthiness apparently remains sound despite its huge hard currency indebtedness -- an estimated \$2.5 billion in medium- and long-term credits at the end of 1973. Warsaw so far has had little trouble paying but has had to draw heavily on Western credits to do so. The low debt-service ratio of about 20% is due in part to the lag in repayments on credits

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already drawn and the phenomenal growth in exports to the industrialized West. The debt-service ratio will undoubtedly increase in a few years when the unusually large credits extended in 1973-74 fall due.

Poland's known outstanding debt to the U.S. was about \$400 million at the end of 1973. PL 480 loans accounted for \$302 million of the debt while CCC credits amounted to another \$87 million. The Export-Import Bank authorized additional credits in March 1974 totaling \$97 million, of which \$3.5 million had been drawn. In addition to the known debt, private credit lines extended by US banks to Poland probably amount to at least another \$97 million.

Future Polish trade prospects are clouded by a combination of external and domestic factors. Western inflation will likely have a perverse effect on its terms of trade. Moreover, Polish meat exports to the EC -- an important hard currency earner -- will probably shrink as a result of present Common Market policies. Also, partly because of the length of the investment cycle for much of the imported Western technology, the industrial sector has failed to produce the planned amounts of export goods. Therefore, the Poles may be squeezed for hard currency as hefty credits extended by the West in 1972-74 begin falling due. But, Poland seems committed to a policy of industrial expansion and

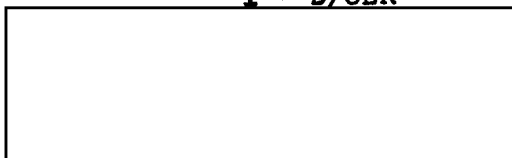
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modernization by importing Western technology and is likely to continue to rely on large credits from the West to meet its goals.

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